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ABSTRACT

One of five McDonald's Action Packs, this learning package introduces intermediate grade students to basic economic concepts. The fourteen activities include the topics of consumption (4 activities), production (5), the market system (3), a pretest, and a posttest. Specific titles under consumption include The Wonderful Treasure Tree (introduction to the story, symbols, and economic concepts to be used), Help the Keeper of the Tree (consumer sovereignty), I Am a Consumer and I Make Choices (consumption and economic choice), and Why Do I Have to Make Choices? (scarcity and opportunity cost). Those activities under production include Who is the Real Keeper of the Tree? (definition of production and of goods and services), What Does My Tree Need to Stay Healthy? (four factors of production), and Let's Be Tree Keepers (production reviewed). Titles under the market system are Who Decides What Will Grow on the Tree? (need for an economic system), The Birdhouse Company: Prices and Sales (demand), and The Birdhouse Company: Prices, Profits, and Production (supply). Each activity description presents student objectives. Activity sheets, which are provided, are suitable for reproduction. The concluding feature is a three-part simulation using concepts developed throughout but stressing those in activity masters 10, 11, and 12. (YLB)

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PREFACE

The purpose of the McDonald's Economics Action Pack is to provide a primary understanding of economic concepts for children in intermediate and upper-elementary grades. The Action Pack is based on the role of the individual as a consumer in the American enterprise system, the economic role which is closest to a young child's understanding and experience.

Research and the experience of the Illinois Council on Economic Education indicate that the concepts covered in this package can be learned at these early grade levels through the format that is used here. Accordingly, the materials are immediately applicable to the classroom, with teacher back-up explanations to facilitate introduction and the development of concepts through classroom activities. Also included in the Economics Action Pack is a pre- and post-testing instrument, which we encourage educators to use.

This program fits within the broader framework of a recognized need for improved economic literacy. We hope that it will provide a starting point for an introduction of economic principles as they affect our lives. We believe teachers will find the Economics Action Pack useful, enjoyable and helpful.

Michael A. MacDowell
Executive Director
Illinois Council on Economic Education

FOREWARD

The McDonald's® Economics Action Pack™ was developed by a team of writers, experienced in both teaching and curriculum development, in conjunction with the Illinois Council on Economic Education. A preliminary manuscript was reviewed in regard both to economic concepts and to pedagogical content by the Illinois Council. The manuscript was revised following that review. The material was also reviewed by experienced classroom teachers.

In addition to its role in the review and revision process, the Illinois Council on Economic Education adapted the simulation and provided the bibliography that accompanies the program. The pre- and post-tests were designed by Dr. Peter Senn, Professor of Economics and Social Science, City Colleges of Chicago (Wright Campus).

Dorothy Cretcher
Carl Fischer
Editors

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The activity masters in this book will produce a minimum of 200 copies. To make copies, carefully detach the master along its perforated edge. Then attach the master to the drum of your spirit duplicator and run the number of copies required.

The master can be stored for later use by removing it from the spirit duplicator and placing it back in its original place between the tissues of this book.

INTRODUCTION

This learning package introduces the intermediate grade student to some basic economic concepts. With the growing interest in consumer affairs and in the problems of the business cycle, more and more schools are searching for ways to make students aware of the economic principles that affect their lives.

In the past, many have avoided teaching economic theory to young students. Yet if the concepts are kept simple — but valid — and if elements of fun are included, children can learn fundamentals of economics. Such is the method of this program. Concepts are limited to scarcity, choice, consumer sovereignty, factors of production, and supply and demand. These concepts are shown through the device of the Wonderful Treasure Tree (an analogy to the American economic system) and the activities of two school children. A special goal of the program is to help students understand that they are active, important participants in our economic system and that their choices make an impact on the market system.

The activities in this program are based on economics as a social science discipline, and the answers preprinted on the front of the spirit duplicating masters are derived from that discipline. Teachers should be aware, however, that because our economic system permits freedom of choice, the economics of the marketplace is subject to the uncertainties of human behavior. Notice, for example, that Activity Master 12 states that sales *may* rise as a result of painting the birdhouses. Obviously, if customers do not like the brightly painted birdhouses, sales may not increase. Because the marketplace is affected by external variables such as human behavior, it will be important to give careful attention to alternative answers that students may come up with, based on their own experience and observations.

The pre- and post-tests (Activity Master 13 and 14) provided in this package should be used to measure how successfully students have understood basic economic ideas. The teacher is urged to avoid placing too much emphasis on the testing situation and to make it a simple information-gathering exercise rather than the traditional "test." The questions on the test are subject to interpretation based on varying economic situations in which they may appear. Teachers should keep these cautions in mind when using these evaluative instruments.

The concluding feature of the Activity Pack is a three-part simulation designed to make economic concepts come alive for young students.

McDonald's® Economics Action Pack™ has been developed in the belief that learning can be fun. One of its overall goals, therefore, is to provide enjoyable classroom activities. The learning objectives include the following:

- to develop an awareness that consumer choices —including their own — have an impact on the market system
- to provide students an introduction to the workings of the market system
- to acquaint students with the economic concepts of scarcity, factors of production, supply and demand, and opportunity cost.

USING THE TESTS

Activity Master 13 and 14 in this book are a pre- and post-test for the entire unit. A pre-test tells you what the students start with. Look the results over carefully. If all of your students get a certain question right, then all you have to do is remind them occasionally of what they know. You can build a better learning experience on the basis of your knowledge about your students.

The results of the pre-test also tell you what the students don't know. Select the simplest, most important ideas to teach first. Carefully examine the Activity Masters and the *Teachers' Guide* in order to emphasize what your students need to know.

Before you give the pre-test, you must have a good idea of what you want to teach with this material. Tell the students what they will be learning and how the material fits into or is related to what they have learned and will be learning. You should also tell the students why they are taking a pre-test — to avoid teaching what they know, to make the material more interesting. Tell them, too, that the pre-test will not count on their grade or report card. Let them take as long as they want to finish.

After you have completed the unit, give the post-test. Tell the students that it will be good to see how much they have learned. Notice that only by pre-testing can you know how effective your teaching was.

An interesting way to grade the post-test is by having the students grade their own papers and discuss the answers to each question. In this way the test is a useful learning experience itself.

The difference in the scores between the pre- and post-tests for the class will tell you how much the students have learned. By looking at the answers to the individual questions you will be able to make changes the next time you use the materials.

THE WONDERFUL TREASURE TREE: ACTIVITY MASTER 1

Student Objective:

To state the story and symbol that will be used to explain economic concepts throughout the program

The first master introduces two children, Kevin and Penny, and a story about a wonderful tree. The children and the tree will be used throughout the program to demonstrate economic concepts. The tree is also a symbol of the great variety of goods and services provided by our economic system. Since the tree will be used to demonstrate scarcity, be sure to point out that the sign reads "Help Yourself to *Some*."

HELP THE KEEPER OF THE TREE: ACTIVITY MASTER 2

Student Objectives:

To describe the impact of consumer demand on production

To predict how producers will respond if consumer demand for a specific product drops to zero

This master introduces a new character, the Keeper of the Tree. The Keeper, who represents the factors of production and the forces of the marketplace, must decide what will grow on the tree. Students will vote on what they would like the Keeper to supply.

In this exercise, students play the roles of consumers and the Keeper represents producers who respond to consumer demand. The voting and scoring process of the master will provide a simplified demonstration of how the purchases of consumers direct producers to supply more of some products and less of others. Be sure that your class understands the relationship between the votes that they have cast to instruct the mythical Keeper and the votes (purchases) that consumers cast to instruct producers.

I AM A CONSUMER AND I MAKE CHOICES: ACTIVITY MASTER 3

Student Objectives:

To define the term *consumer*

To choose priorities from among a number of desired items

To discover that governmental bodies make economic choices for citizens

Some more realistic choices than those offered by the Treasure Tree are introduced by this master. Students learn that all of us are consumers and that all consumers make choices. If those who did not *buy* something yesterday believe that they did not consume three things, point out that *using* a product is also consumption. If a student ate, read the paper, or used toothpaste, he or she was acting as a consumer.

The activity presents some choices that school-age consumers might make. Ask students why they made the choices that they did. If someone answers that he or she "needs" an item, point out that in the modern world it is virtually impossible to distinguish needs from wants. Even basic subsistence requirements have psychological considerations: e.g., we *need* shelter, but few are content with grass huts. Economists point out that human wants tend to increase indefinitely as society increases its ability to produce. In this activity students are not choosing items of food, clothing, and shelter because parents supply these things.

As students complete the third activity, point out that when government agencies make choices, they have to consider the wants of the people they represent. If most of the people of a town think that better streets are needed, that will affect the choice of the town council. Thus, citizens influence (and have a responsibility to influence) the choices that governmental bodies make. At least ¼ of our total national income is spent by government.

WHY DO I HAVE TO MAKE CHOICES? ACTIVITY MASTER 4

Student Objectives:

To identify the opportunity cost of everyday purchases

To state the reason why people must make economic choices

All societies must cope with scarcity, the problem of trying to meet unlimited human wants with limited resources. Because goods and services are *scarce*, we must give up something in order to get them. In the example on the master, the young consumer must give up popcorn in order to have peanuts. A family might give up a color television in order to take a vacation. The town council might have to give up a town picnic to pay for street repairs. Economists call that which must be given up the "opportunity cost."

The first activity uses the Tree to demonstrate scarcity and opportunity cost. Remind students that the sign by the Tree reads "Help Yourself to *Some*." Students are asked to name three items that they would have picked from the tree if they had had more choices. Since they had only three choices, these latter items represent the opportunity cost of the things that students first chose (Activity Master 2). The second activity asks students to pretend that they have won prizes on a television show. Again, the prizes that they do not choose, but might have enjoyed, represent "opportunity costs" of the items that they choose.

WHO IS THE REAL KEEPER OF THE TREE? ACTIVITY MASTER 5

Student Objectives:

To define production

To recognize distinctions between goods and services

To identify goods and services produced locally

This master points out that people, not magic, put treasures on our real-life tree. These people are engaged in the process called production (making goods or providing services that satisfy economic wants).

Students are asked to look at illustrations and to make up definitions of goods and services. When students have written and discussed their definitions, ask them to indicate which of the people pictured produce goods and which produce services.

Finally, students are asked to think of goods or services that they contribute. Remind them that chores such as cutting grass or washing dishes are services, whether or not wages are paid. A child who bakes cookies is producing a good. Young people frequently contribute production to their families and receive rewards by sharing in the products that their families use and enjoy.

As an additional activity, you could have each student name a job, perhaps one he or she would like to have. On the chalkboard, list those occupations that provide goods in one column and those that provide services in another. Which list is longer? (Well over half of our working population now produces services.)

WHAT DOES MY TREE NEED TO STAY HEALTHY? ACTIVITY MASTERS 6,7 and 8

Students Objectives:

To identify products from the factor of production called land

To identify goods and services produced by different workers

To identify workers who use different kinds of capital goods

Activity Master 6 introduces the Four Factors of Production and explains the factor called Land. The concept of the four factors is introduced through the analogy of the tree. Just as trees need water and sunlight, the process of production also has some essential ingredients.

The factor of production called *land* includes all raw materials that go into a product as well as the ground on which factories and offices stand. Rent includes payments made for natural resources.

Most of the examples of products in the "unscrambling" exercise will be familiar to your students. Some may be surprised, however, to learn that shampoo and plastic are often made from oil.

You may want to begin Activity Master 7 by reviewing the four factors and the definition of land introduced by Activity 6.

Then introduce *Labor* and *Capital.* The idea of working (labor) and being paid for it (wages) will be familiar to your students. Labor is defined as the effort that people devote to the productive process. Ask which of the people listed under labor produce goods and which produce services.

Capital is defined as man-made goods (machines, tools, and factory buildings) used to make other goods and services. The activity will acquaint students with the uses made of simple items of capital. Ask if they can think of examples of capital goods that other workers might use. What capital good would a pilot use? A photographer? The parents of your students?

Activity Master 8 deals with the final factor of production, Enterprise. (For the sake of simplicity, we are using the English word in place of the more frequently used term, *Entrepreneurship.*) Enterprise, the risk-taking and decision-making factor of production, combines the other three factors in the most efficient and profitable manner.

The first activity shows the sorts of decisions that Enterprise makes. Point out that Enterprise frequently has to make either/or decisions; that is, it must decide whether it would be more profitable to hire another worker or to buy a machine.

When the "jigsaw" puzzles of the second activity have been put together correctly, one will describe two decisions concerning land, one will describe three decisions concerning labor, and the third will describe three decisions concerning capital.

Enterprise receives a payment called profit, *provided* that money is left over when all of the other factors have been paid. If there is no money left over, there is no profit (that is one of the risks of enterprise). Profit is necessary to encourage enterprise to take risks in order to devise new and better ways of producing goods and services. It is also an important source of money that can be reinvested in new businesses and capital to make more goods and services and to provide new jobs for a growing population.

LET'S BE TREE KEEPERS: ACTIVITY MASTER 9

Student Objectives:

To identify the terms land, labor, capital, enterprise, wages, and profit from descriptions of a simplified business situation

Activity Master 9, in which Kevin and Penny act as the factor of production called Enterprise, is important, not only as an application of the factors of production, but to demonstrate that children can be producers.

When students finish the activity, they will have constructed a tree that includes the factors of production that Kevin and Penny assembled in their doghouse business and the payment that two factors receive.

You could ask your students to think about how they might contribute to production as adults. Ask them what they would like to do when they grow up. Tell them that education and training are very important to production. Ask students to think about what kind of training is necessary to the jobs they have chosen. If resource materials are available ask them to look up the information in the school library.

WHO DECIDES WHAT WILL GROW ON THE TREE? ACTIVITY MASTER 10

Student Objectives:

To mention several ways a society could determine what its economy will produce

To recognize that because of scarcity entire societies must make economic choices

Activity Master 10 reviews the problem of scarcity and points out that because of scarcity, some system is necessary to decide what products are to be produced. The activity first asks each student to decide individually how he or she thinks that question should be decided. The class is then asked to collectively design a plan for deciding what their hypothetical society will produce. The next task is to use the plan to choose collectively ten products to be drawn or written on the Treasure Tree. Since only ten products may be chosen, and different members of the class will prefer different products, the exercise will give students a simulated experience with the problem of scarcity.

The first two choices presented by the final activity (one government planner or a committee of planners) are examples of what is called a "command economy," in which a central authority makes economic decisions. If some students choose the third alternative (consumers), point out that consumers play a very important part in our decision-making process. A more technically accurate answer would be "the market system" or "producers and consumers." Remind your students that producers respond to the "dollar votes" of consumers by producing more or less of a given item. Many economists refer to our system as a "mixed economy" since government activity affects and, in many ways, regulates the operation of the market system.

You might ask your students to imagine what it would be like if one person or group had the power to decide what should be produced. Suppose, for example, that a ruler had decided that no more automobiles would be produced, but that everyone would ride in trains. Ask students to list the possible results and to decide whether there would be more advantages or disadvantages.

HOW DOES THE MARKET SYSTEM WORK: ACTIVITY MASTERS 11 and 12

Overview

Activity Masters 11 and 12 apply the basic understandings of the market economy to a real-life situation. The masters purposely leave the treasure tree analogy and place Kevin and Penny in the business of producing birdhouses to meet consumer demand in the neighborhood. Utilizing the concepts learned in Activity Master 9 concerning the cost of production, the children begin to produce birdhouses.

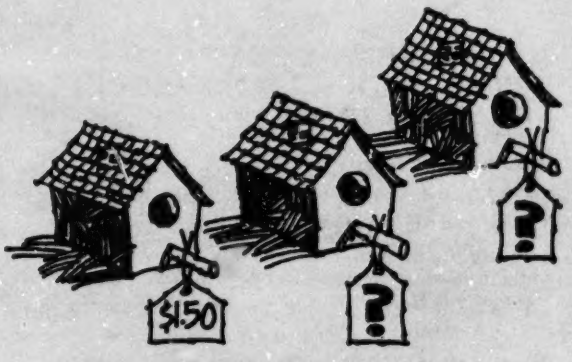
The first week the children build a birdhouse and find that the quantity demanded by their neighborhood friends is greater than they expected. They are able to sell the birdhouse for 50¢ more than it cost to produce. Kevin and Penny are experiencing the market first hand. Demanders are "bidding" against one another. That is, they are engaged in the process of offering higher prices in an attempt to gain possession of the limited number of birdhouses.

Kevin and Penny react to this situation as many other producers do. Because all the factors of production cost them $1.00 per unit produced and because there is profit of $.50 on their first unit, they produce more birdhouses.

The market, however, has its own systems of checks and balances. As Kevin and Penny produce more birdhouses, the price of birdhouses is bid downward.

While the neighborhood children are obviously interested in obtaining the birdhouses for the lowest price, Kevin and Penny are interested in obtaining the most for their birdhouses (i.e., maximizing their profits). They must cover their costs or they will go out of business, but in addition, Kevin and Penny are also interested in making a "profit," the return above cost of the three factors of production — land, labor and capital. Kevin and Penny are enterprisers (entrepreneurs), and their return is profit.

What is this profit used for? It might be used to improve their product or to buy more tools to expand production. Profit also performs another important function. Expected profit is the enticement which leads Kevin and Penny to enter into the production of birdhouses. Finally, in competitive markets profit acts as a social control mechanism. If profits climb too high, other competitors in the neighborhood will enter the market and, as we now know, an increase in quantity supplied will bring about lower prices.



THE BIRDHOUSE COMPANY: PRICES AND SALES ACTIVITY MASTER 11

Student Objective:

To state the basic relationship between price and the quantity demanded

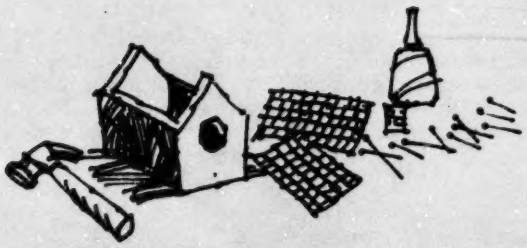
Activity Master 11 is designed to develop the relationship of price to the number of birdhouses offered to and taken from the market. Penny and Kevin decide to produce a certain number of birdhouses a week — based on past sales experience. After the birdhouses have been produced, their price is determined by those willing and able to pay. Note in Activity Master 11 that the number of birdhouses produced increases each week and the selling price declines in order to sell the additional units.

The selling price for the 8 units produced in the 4th week has been left blank. Students are asked to estimate a selling price and justify their answer. Ask for the student responses and list them on the chalkboard. The price must be below $1.20 for if there had been an unsatisfied demander (purchaser) during the week that 4 units were produced, that demander would have bid the price above $1.20.

Based on the data in the table one would expect that the price would be between $.90 and $1.10.

Students should be made aware that even though a $.90 price does not cover costs, this may be the price at which suppliers must sell their product.

The table can also be interpreted as a list or demand schedule depicting the different quantities demanded at different prices. More rigorous economic analysis would require that careful attention should also be paid to the time element. Prices are determined by the interaction of supply and demand at a given time.



THE BIRDHOUSE COMPANY: PRICES, PROFITS, AND PRODUCTION ACTIVITY MASTER 12

Student Objectives:

To define total sales, total costs, and profit

To identify the most profitable level of production

To state the relation between rising (or falling) profits and increasing (or decreasing) levels of production

To state the impact of rising costs of production on prices and output

Activity Master 12 develops the concept of profit maximization by the firm as a means of determining the level of production. Given the cost of production of each birdhouse ($1.00) and the concept of demand that additional units of a product can be sold only at lower prices, the student will complete the table. When completed, the table should look as follows:

(1) PRICE	(2) BIRDHOUSES SOLD	(3) TOTAL SALES	(4) TOTAL COSTS	(5) PROFITS
$1.50	1	$1.50	$1.00	$.50
1.30	2	2.60	2.00	.60
1.20	4	4.80	4.00	.80
.90	8	7.20	8.00	-.80

Columns 1 and 2, price and birdhouses sold, are in effect the demand schedule (list) for birdhouses in this market. It reflects the basic "Law of Demand" that more units will be demanded at lower prices. Column 3 depicts total sales, which is the product of column 1 x column 2, or price times quantity sold. Total sales of the firm rise as the market price falls in this case. Note that this need not be true in all cases. For instance, a firm selling salt would probably find its total sales (dollars) falling as price fell because consumers tend to use only so much salt regardless of price.

Column 4 is total cost, the cost of producing each birdhouse ($1.00) times the number produced. Column 5, profits, shows the difference between Total Sales (3) and Total Costs (4). It is important to note that *profits can be negative.* In this case, the firm suffers a loss when it produces 8 birdhouses and does not cover all costs of production.

The Activity Master asks the student to indicate how many birdhouses Penny and Kevin would like to produce. This question could have several answers depending upon the goal assumed by the student. If the student assumed the firm's goal to be:

a) **profit maximization,** the level of production is 4 units per week with a profit of $.80

b) **sales maximization,** the level of production is 8 units per week with a loss of $.80. The firm could not continue this level of production unless it were subsidized from some other source.

It is also possible that the students would want to provide the most birdhouses for the kids in the neighborhood. In this case the level of production would be 8 units.

The answer which most businesses would select is 4 units per week which maximizes firm profits. It is this search for maximum profits which causes firms to expand and contract production in response to changes in consumer demand. As consumers are willing to pay higher prices for a good, the firm's profit will expand and production will be increased in response to the inducement of added profits.

The "Now let's suppose" section offers an opportunity to reinforce these concepts and to use the supposition to gain additional insights into the functioning of the market system.

When the cost of lumber rises due to a forest fire, the supply of lumber is reduced in relation to demand. The reduction in supply with no change in the demand for lumber would cause the price to rise. In order to determine the impact of higher lumber prices on production and profits, it will be useful to recompute the table (perhaps on the chalkboard). Price, quantity sold, and total sales remain the same. However, total costs will rise. As a result,

(1) PRICE	(2) BIRDHOUSES SOLD	(3) TOTAL SALES	(4) TOTAL COSTS	(5) PROFITS
$1.50	1	$1.50	$1.20	$.30
1.30	2	2.60	2.40	.20
1.20	4	4.80	4.80	0
.90	8	7.20	9.60	-2.40

profit at all levels of output will fall and the profit maximizing level of production will be one unit per week.

In the second case, the students are asked to respond to the decision to paint the birdhouses bright colors. Kevin and Penny are likely to find that their customers like the painted birdhouses much more, and that they will be willing to pay higher prices for them. Again it would be helpful to recompute the table. The fact that the improved quality of the product (painting) raises the price consumers are willing to pay for the birdhouses is reflected in Total Sales. Note that Total Costs also rise as we assume that the painting increases the cost of production by $.05 per birdhouse.

8-a

PRICE	BIRDHOUSES SOLD	TOTAL SALES	TOTAL COSTS	PROFITS
$2.00	1	$2.00	$1.05	$ .95
1.80	2	3.60	2.10	1.50
1.60	4	6.40	4.20	2.20
1.40	8	11.20	8.40	2.80

The new calculation of profit shows that the profit maximizing level output is now 8 units per week. Thus costs have risen as a result of improved product quality, but profits and output have also risen owing to the increased demand for better quality birdhouses.

CULMINATING SIMULATION — EMPHASIZING ACTIVITY MASTERS 10, 11 and 12

Introduction

The interaction of supply and demand, the dependence of the market system on price, and changes in market price due to changes in the costs of production, cannot be overemphasized. Even at the earliest grade levels, children can learn these basic underlying facts of the market system from the standpoint of the consumer and the producer.

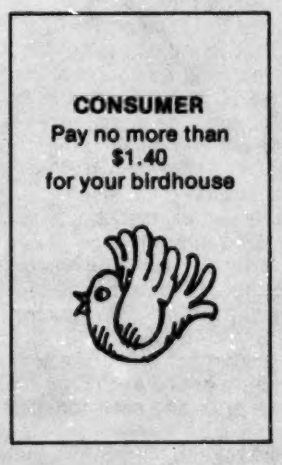
The following three-stage simulation is designed as a culminating activity for the Action Pack. It utilizes many of the concepts developed in Activity Masters 1 through 12, stressing those found in Activities 10, 11 and 12. The three stages of the simulation are designed to demonstrate: (1) the determination of market price through the interaction of supply and demand; (2) the impact of increased production costs on price and quantity sold; and (3) the effect of changes in consumer demand resulting from changes in product quality.

The simulation is tailored to classes of 20-30 students; class sizes substantially larger or smaller will need proportionately larger or smaller numbers of Producer and Consumer cards.

How to Prepare

Four sets of different colored cards (3x5 or smaller) will be needed. One set of (white) cards should be prepared for "Consumers" in the first simulation and a second set of (blue) cards should be readied for "Producers". A third set of (red) "Producer" cards will be needed for the second stage, while a fourth set of (green) "Consumer" cards is needed for the third stage.

If you wish, the "Consumer" and "Producer" cards can be "dressed up" by printing additional information and/or artwork on the basic set of cards (in addition to the prices listed below). An example might be:



The simplest set of cards merely require the the addition of *prices*, according to the following table:

PRICES	NUMBER OF CARDS			
	White Consumer	Blue Producer	Red Producer	Green Consumer
$2.00				1
1.90				1
1.80			1	2
1.70			1	3
1.60	1	1	2	6
1.50	1	1	2	3
1.40	2	2	4	2
1.30	3	2	4	1
1.20	6	4	4	1
1.10	3	4	1	
1.00	2	4	1	
.90	1	1		
.80	1	1		
	20	20	20	20

8-b

HOW TO CARRY OUT THE SIMULATION

Tell the students they are about to play the roles of producers and consumers interacting in a market. They will act as buyers and sellers of birdhouses.

The class will be divided into equal sized groups. The teacher will act as the announcer, announcing the exchange price of each transaction. One person will act as the recorder, listing each transaction (sale) price on the chalkboard.

Each producer (seller) will be given a producer card and each consumer (buyer) will be given a consumer card. The remaining producer and consumer cards are placed on a table near the teacher.

The producers will be told to sell birdhouses at any price at or above the price listed on their cards.

The consumers will be told to buy their birdhouses at any price at or below the price listed on their cards.

When a producer and consumer agree upon a price, a sale is made. They come to the teacher/announcer and indicate the price agreed upon. The *announcer calls* out the price to the students and the recorder lists the price on the chalkboard. The producers and consumers then turn in their cards and are given different cards. They then return to the market. In order to reduce the possible frustration of not concluding a transaction owing to a card price being too high or too low, tell the students to exchange their cards for different ones at the table if they cannot conclude a transaction within two minutes.

All students should keep a record of their transaction prices. At the end of each market period each producer will determine an average sale price and each consumer an average purchase price.

The winners are the producer(s) and consumer(s) who received/paid the highest/lowest prices. This is in accord with the basic goals of producers and consumers.

For the first market simulation, after the students have played their roles for about 5-10 minutes, the market should be closed. At this time the teacher should call attention to the list of market transactions on the chalkboard. It is to be expected that the range of transaction prices will be wide, but that they will tend to cluster about the market-clearing price (that price at which the number of items offered by sellers exactly equals the number taken by buyers). After discussing this point for a few minutes, the teacher should re-open the market. Given this added insight, the students' transactions should tend to cluster closer to the market-clearing price. The market should be closed after a second 5-10 minute period.

At this time the winning producers and consumers can be identified.

The students will become aware of the importance of the transaction prices announced and recorded. Therefore, in stages two and three of the simulation it may not be necessary to stop and re-open the market to call attention to the recorded transactions.

SPECIFIC CARD INSTRUCTIONS

Stage 1	Activity Master 11	Blue - Producer cards
	Activity Master 11	White - Consumer cards
Stage 2	Activity Master 12: Lumber Cost Increasing	White - Consumer cards
		Red - Producer cards
Stage 3	Activity Master 12: Paint Birdhouse: Increasing Demand	Green - Consumer cards
		Red - Producer cards

DEBRIEFING THE SIMULATION

Experienced teachers realize that the debriefing portion of any simulation is the most important aspect of the learning process.

The first stage of the simulation is designed to reinforce Activity Master 11. Point out to your students that, as the rounds progress, the class will begin to reach a more definable market clearing price (around $1.20). Point out to the class that "knowledge of the market" (that is, an increasing awareness of the prices at which birdhouses are offered) will tend to narrow the difference between "bid" and "asked" prices. This is the essence of the market system for, without interference from the outside and in the presence of competition, the market will satisfy the maximum number of consumers and producers through the exchange of goods and services at the lowest possible prices.

In stage 2 of the simulation, which utilizes the red and white cards, an increase in the market price (to about $1.30-1.40) should occur. By reducing the supply of birdhouses at each possible price, we are actually offering fewer birdhouses for sale while maintaining the same consumer demand. Point out to the class that this situation will inevitably raise prices. Ask the class what situations in our real economy might occur to reduce supply. Answers might include natural disasters, cartels, monopolies, or even governmental regulation.

The green cards are introduced in the third phase of the game to simulate an increase in the demand for the product due to an improvement in quality. Again, this section of the simulation has many day-to-day applications which should be pointed out to the class. For instance, advanced students may point out that there are changes in tastes and desires for goods and services due to actual product improvement or that perceived differentiations in products may increase consumer demand. Also some students may wish to discuss the role of advertising in increasing consumer demand. In any event teachers should pay attention to contemporary applications of these important aspects of this exercise.

Last April Penelope Prentice and Kevin O'Dell went for a walk in the park. The spring sun was warm. Tall buildings were shining in the background. The new grass squished under their feet because an early shower had left the ground wet. Violets, tulips, and lilac bushes were wearing their very best clothes.

Around every turn in the path, Kevin and Penny found something more beautiful than they had seen before. And finally, right in the center of the park, where all the paths met, they saw the most wonderful sight of all. Right there in the center (where there usually is a greenish statue of a general on a horse) was a wonderful TREASURE TREE.

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HELP THE KEEPER OF THE TREE

The person on the left is the simply first-rate, positively great, otherwise remarkable, keeper of the tree.

By waving the magic tree trimmer, the Keeper can make *almost anything* appear on the tree. But notice how worried the Keeper looks! The Keeper doesn't know what to put on the tree. If things are made that nobody wants, they will just hang on the tree and go to waste. Look at the wonderful tree again. Choose three things that you would most like to have and write their names on the blanks below. (Remember — only three!)

_____

_____

_____

You and your classmates should list your choices on the chalkboard. Keep score to see what items (or "products") are most popular. List the winners, the losers, and the in-betweens in the spaces below so that the Keeper will know what to put on the tree.

A WHOLE BUNCH	NOT QUITE SO MANY	ONLY A FEW	ONLY ONE

Of course, we don't pick our bicycles and candy bars from trees. We buy them in stores. But each time we buy something, we vote just as you did today. Our purchases act as votes, telling businesses what we want to have made. And businesses use our dollar votes to decide what to make. If we buy a lot of jean jackets, businesses will make more of them. If we buy only a few jean jackets, businesses will make fewer of them. What will businesses do if we don't buy any at all?

Businesses will stop making jean jackets.

_____

_____

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Businesses make things that people will buy. A person who uses something to satisfy his or her wants is called a *consumer.* Yesterday Penny wrote in her notebook, bought a tee shirt, and went to the movies. Name three things you "consumed" yesterday.

_____ _____ _____

Consumers make choices about ways to spend their money. All consumers need food to eat, a place to live, and clothes to wear. Consumers usually buy those things first.

(1) Look at the list below. Is there something you want *very much* that is not on the list? If so, write it on the blank at the end of the list. (2) Now, pretend that you have $5 to spend. Each thing below costs about $5. Which would you buy first? (Put a 1 in the blank beside it.) (3) Which things would you buy second and third if you had another $10? (Put a 2 and 3 in front of them.)

____ ice cream cones for three weeks	____ movie tickets for you and your friends	____ save for the future
____ record	____ save for a ten-speed bike	____ _____

Countries, states, and cities also make choices about what to consume. If your city or town had half a million dollars to spend and you were on the town council, how would you vote to spend the money? Place a 1 beside your first choice and a 2 beside your second choice.

____ a new park	____ fire trucks	____ a giant picnic for everyone
____ a new swimming pool	____ fixing the streets	____ _____

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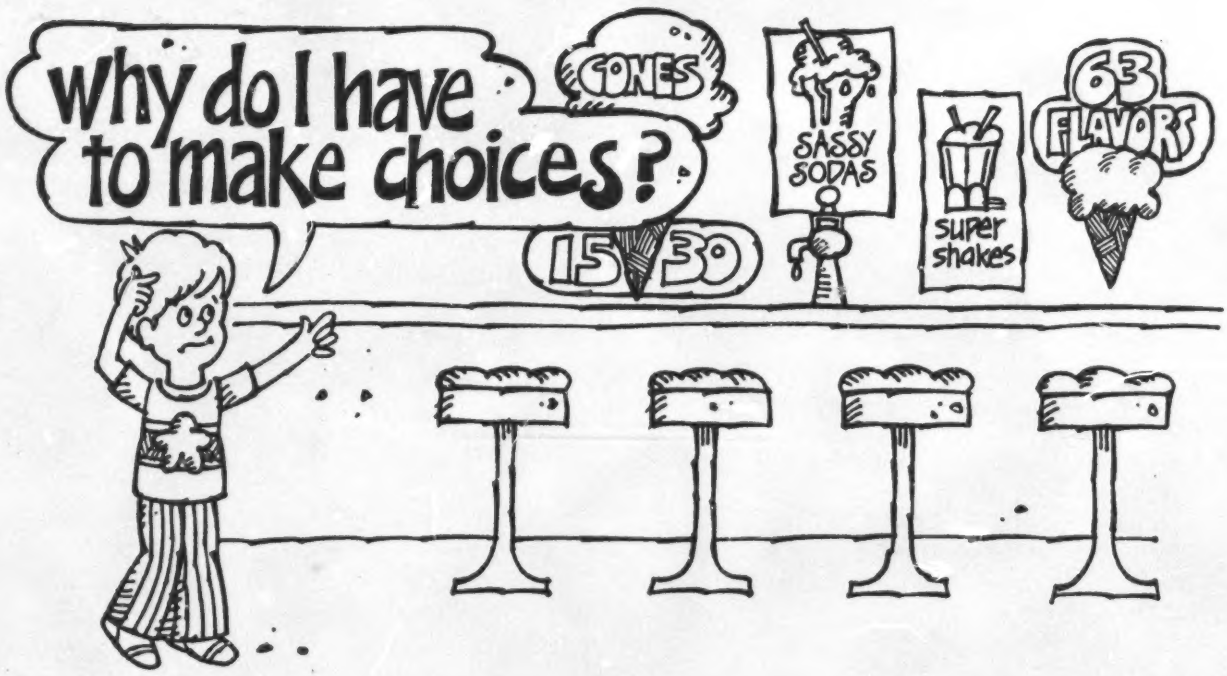

No one can have everything he or she wants. People always want more than they can have. They do not have enough money to pay for everything they want. That problem is called economic scarcity. Something is said to be scarce when you have to give up something else in order to get it. Remember the three things that you chose from the tree? Now list two or three others that you would like to have had if you could have had more choices.

_____ _____ _____

The things you just listed are the "opportunity cost" of your first three choices. That is, in order to have your first three choices, you had to give up the other things that you wanted. "Opportunity cost" is what you have to give up in order to get the things you want most.

If you want a box of popcorn and a bag of peanuts (each costs 25¢ and you have only 25¢) and you choose to buy the nuts, the "opportunity cost" of the nuts would be the

box of popcorn.

Suppose that you win the big prize on a television game show. You can choose *one* of the following gifts. Check the one you would choose.

See Teacher's Guide FLEET WHEEL SUPER 10-SPEED BIKE

_____ HYPER-SOUND STEREO SET

_____ 3-DAY VACATION VISIT TO AN AMUSEMENT PARK

Now put "Opportunity Cost" in the blank beside the things that you had to give up for the one thing you chose. If you had to, could you explain "opportunity cost" to someone who didn't know what it meant?

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Who is the real keeper of the tree?

In real life, bicycles and ice cream bars do not grow on trees. Still, people in our country enjoy more good things than most of the people of the world. Where do these things come from? They are made by people.

MAKING GOODS
or
PROVIDING SERVICES
IS CALLED PRODUCTION

Look at the pictures above. What do you think "Goods" are? material items (things) that satisfy economic wants

What do you think "Services" are? doing things (performing duties) that satisfy economic wants

Place a G beside all of the people below who make (produce) goods. Put an S beside all of the people who provide (produce) services. Anyone who produces goods and services, or anyone who provides tools for those workers is a keeper of the tree!

S

S

G

G

G

S

Can you think of any goods or services that you provide at home or at school? If you can, list them in the space below. They show that you are a tree keeper!

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What does my tree need to stay healthy?

Besides waving the magic tree trimmer, the Keeper of the Tree makes sure that the treasure tree is properly cared for. The Keeper makes sure that it has plenty of water and sunlight.

The production of goods and services (our real-life treasure tree) also needs proper care. It needs four things, called the FOUR FACTORS OF PRODUCTION, in order to stay healthy. Each of the factors offers something important to production and each receives something in return. The Four Factors of Production are called LAND, LABOR, CAPITAL, and ENTERPRISE. These Factors of Production are all "scarce," in that they are limited in amount. That is why consumers can't have everything they want.

Land

The factor of production called LAND includes more than just ground. It also includes raw materials (like coal, iron ore, forests, fish, and water) that are taken from the earth and sea. Owners of LAND sell raw materials to producers and receive a payment called rent in return.

See if you can unscramble the names of the products in the boxes below. Each box has a picture of the kind of product which can be produced from raw materials (land). Then write each name correctly in the blank.

FORESTS	FARM LAND	OIL WELL	IRON ORE
USOHE House	ONCR Corn	SGA Gas	EIKB Bike
LLAB ABT Ball Bat	IMKL Milk	AMPSOOH Shampoo	AILN Nail
CIPCNI LATEB Picnic Table	EASNB Beans	LASPCIT OYT Plastic Toy	ARC Car

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Tree Book, part 2

Labor

Another factor of production (another thing that our real-life treasure tree needs to be healthy) is called LABOR. LABOR includes the work that people do to produce goods and services. The pay that labor (workers) receives for work is called wages. So, workers sell time and effort, and receive wages.

Below the name of each worker, write the name of some goods or services that he or she might help to produce.

FARMER	FACTORY WORKER	NURSE	WRITER
Milk	Bicycles	Gives Bath	Stories
Eggs	Cars	Takes Temperature	Movies
Corn	Tools	Gives Medicine	Schoolbooks

Capital

The third factor of production needed by our real-life tree is called CAPITAL. CAPITAL includes machinery, tools and factories used to produce goods and services. A bulldozer used to build a road is an example of CAPITAL. The owners of capital receive a payment called interest for the use of capital.

Write the name of a worker beside the picture of the CAPITAL (or tool) that he or she would use.

Baseball player

Housekeeper

Doctor

Secretary

Carpenter

Farmer

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Tree Book, part 3

The last factor of production needed by our real-life tree is called ENTERPRISE. "Enterprisers" are the people who build and run businesses. ENTERPRISE risks its money, time, and energy to put the other three factors (LAND, LABOR, and CAPITAL) together in the best way.

ENTERPRISE tries to make sure that the goods and services that people want most are produced. It uses new ideas to produce goods and services at the lowest possible cost. If money is left over when all bills have been paid to the other factors of production, ENTERPRISE receives a payment called profit.

ENTERPRISE makes many important decisions about how to combine LAND, LABOR, and CAPITAL in order to produce goods and services. Beside each decision below, write whether it is about LAND, LABOR, or CAPITAL.

_____ Labor _____ Hire a worker _____ Land _____ Buy raw materials

_____ Capital _____ Buy a new machine

The picture below shows ENTERPRISE putting LAND, LABOR and CAPITAL together to build a business. The puzzle pieces name decisions that an "enterpriser" in the grocery store business would make. Cut out and put together the pieces that name decisions that the grocery store enterpriser would make about each factor of production. Paste them in the right block.

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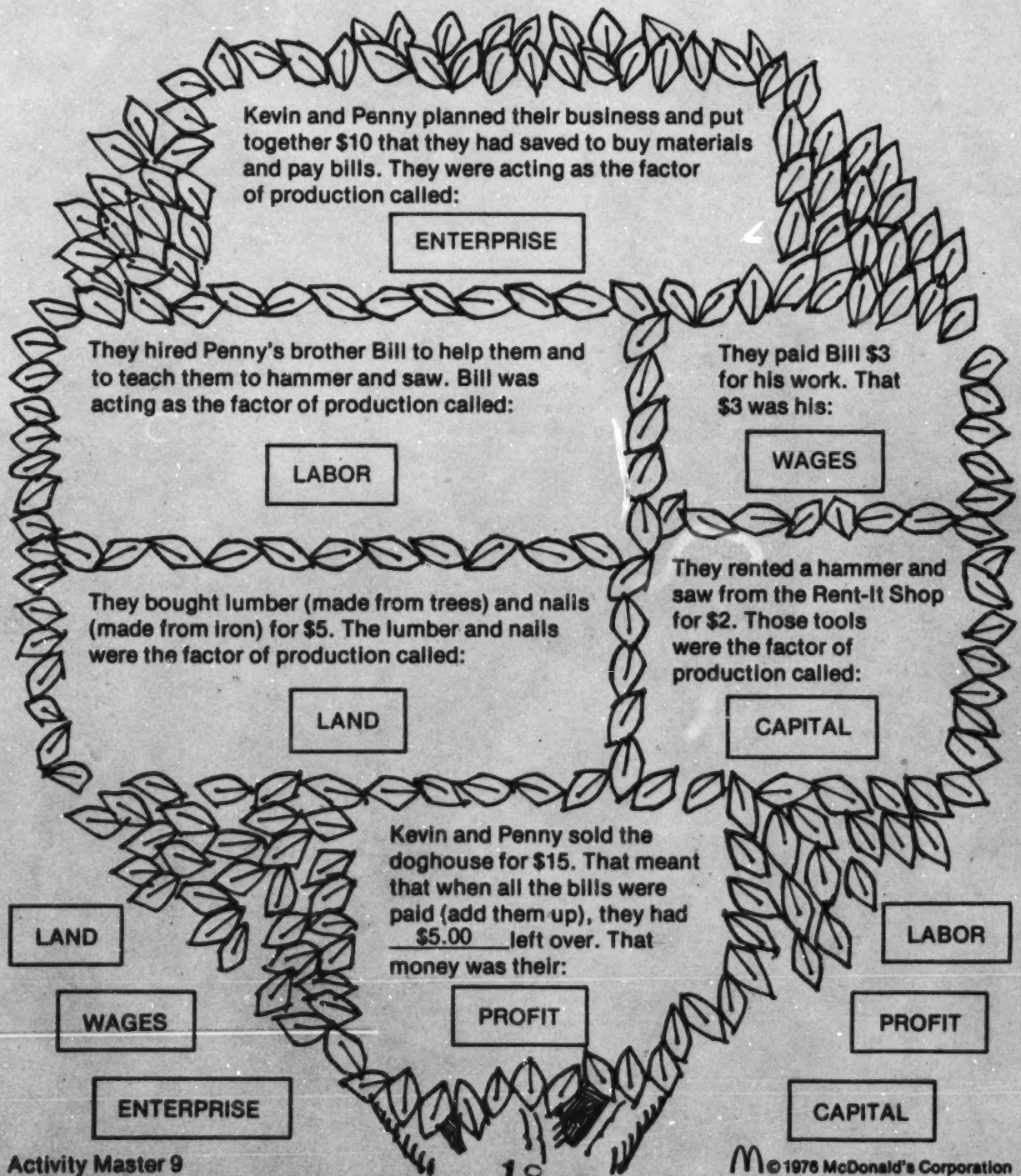
Let's be tree keepers

When we help to produce goods and services, we are helping to take care of our real-life treasure tree. Kevin and Penny did that last summer.

Kevin's grandmother wanted to buy a doghouse, so Kevin and Penny decided to try to earn some money by building one for her. To be sure that you understand how the treasure tree grows, read the sentences below that tell about Kevin and Penny's doghouse business. Then cut out each of the words at the bottom of the page and paste it in the right space.



Kevin and Penny planned their business and put together $10 that they had saved to buy materials and pay bills. They were acting as the factor of production called:

ENTERPRISE

They hired Penny's brother Bill to help them and to teach them to hammer and saw. Bill was acting as the factor of production called:

LABOR

They paid Bill $3 for his work. That $3 was his:

WAGES

They bought lumber (made from trees) and nails (made from iron) for $5. The lumber and nails were the factor of production called:

LAND

They rented a hammer and saw from the Rent-It Shop for $2. Those tools were the factor of production called:

CAPITAL

Kevin and Penny sold the doghouse for $15. That meant that when all the bills were paid (add them up), they had $5.00 left over. That money was their:

PROFIT

LAND

WAGES

ENTERPRISE

LABOR

PROFIT

CAPITAL

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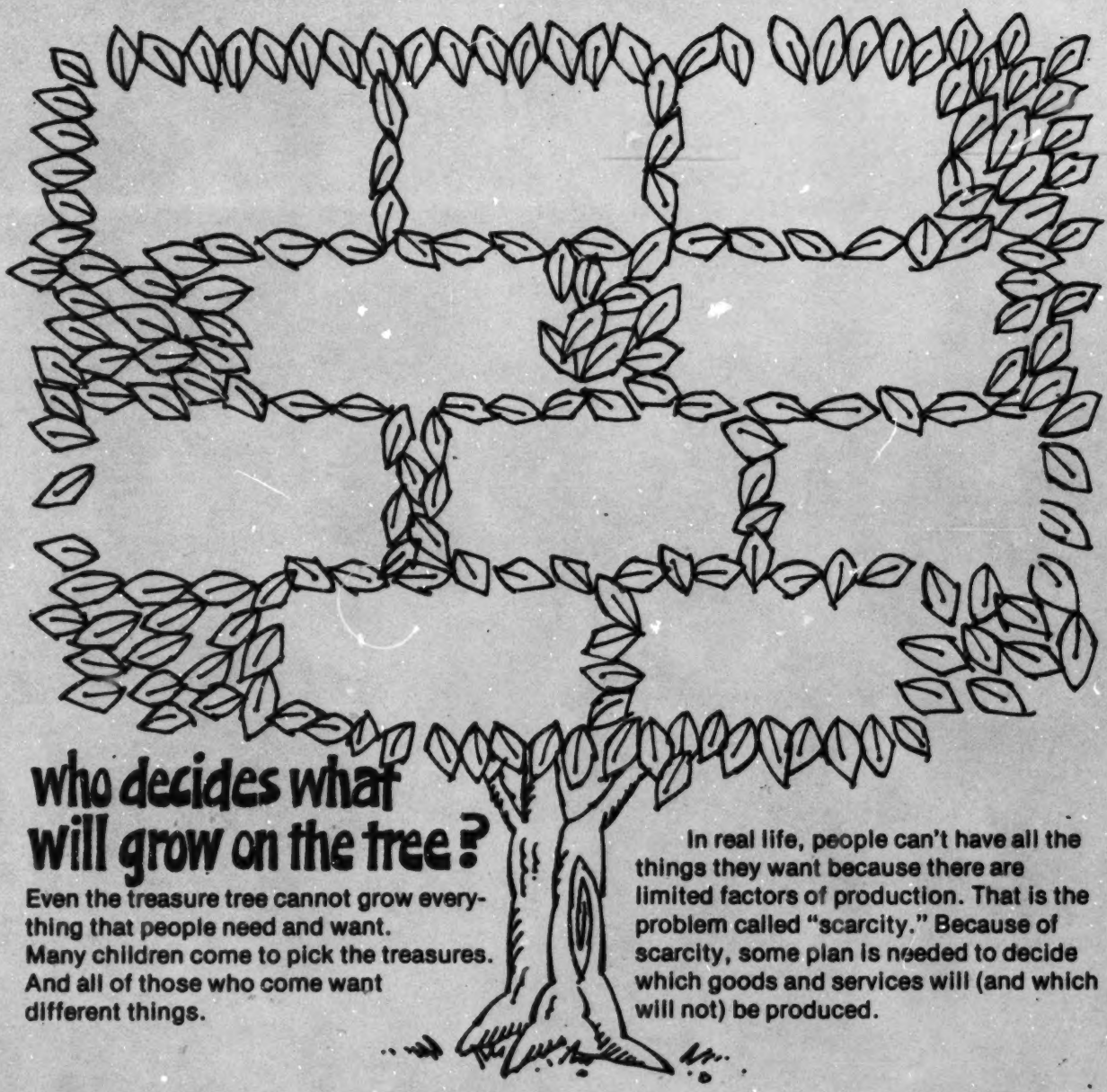

who decides what will grow on the tree?

Even the treasure tree cannot grow everything that people need and want. Many children come to pick the treasures. And all of those who come want different things.

In real life, people can't have all the things they want because there are limited factors of production. That is the problem called "scarcity." Because of scarcity, some plan is needed to decide which goods and services will (and which will not) be produced.

Suppose that your class is a country. Because of scarcity, only ten things can be put on your tree. All of you probably want different things. How do you think your class should decide what to put on the tree? By voting? By choosing a leader to decide? By some other way that you think of?_____

Talk over your answer with your classmates and teacher. Decide, as a group, how you will choose the ten products for the class treasure tree. Then use your plan to choose the ten items. Draw them or write their names on the picture of the treasure tree above.

Now decide how you think our real-life country should choose those things that will be produced. Circle the method you think should be used. Then talk over your answer with your classmates and teacher.

"The Government Planner should decide."

"A Committee of Government Planners should decide."

"Consumers should decide."

?

"Your idea"

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PRICES AND SALES

Remember that in our country we cast dollar "votes" for the goods and services we want. Now we will see how price (what we pay for goods and services) affects how much we buy.

Remember the doghouse that Penny and Kevin built? It was a real success. Grandma liked it and so did other people. Kevin and Penny thought about going into the doghouse business, but they knew that doghouses cost too much for children to buy. They decided to build birdhouses instead.

Their birdhouses cost them $1.00 to build. The first week they built one birdhouse and offered it for sale in Kevin's yard. Then an interesting thing happened. The neighborhood kids liked the birdhouse very much. They began to *bid* against each other for it. Jim bid $1.20. Then Susan bid $1.30. Finally Jack bid $1.50 and bought the birdhouse.

Kevin and Penny were very happy. They decided to build two birdhouses the second week. This time they were able to sell the birdhouses for $1.30. The third week they built four birdhouses and sold them for $1.20. The fourth week they built eight birdhouses.

Use the figures from the story you have just read to fill in the table below. (The first line has been filled in for you.)

Week	Birdhouses Built and Sold	Selling Price
1	1	$1.50
2	2	$1.30
3	4	$1.20
4	8	?

Were you able to find all of the figures? Your answer should be "no" because one of them is missing. What do you think the price of the birdhouses was in the fourth week? _____ Why do you think that was the price? See Teacher's Guide

_____

_____

The table shows that as the price goes *down* the number of birdhouses sold goes

☒ UP ☐ DOWN

Why do you think this is so? Answers will vary. (More people are willing and able to buy birdhouses when the price is lower.)

_____

_____

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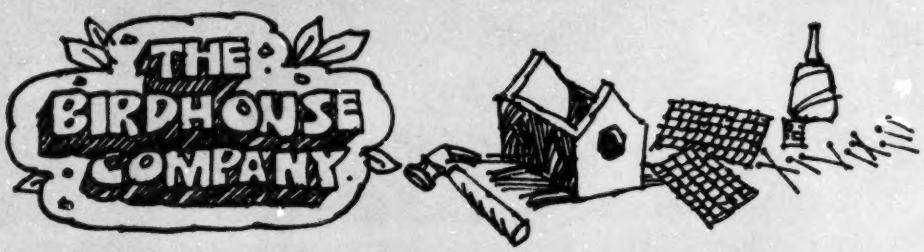

PRICES, PROFITS AND PRODUCTION

We have seen how price affects how much we buy. Now let's look at how price affects how much is produced.

In Penny and Kevin's business, the price of the birdhouse times the number sold equals their total sales. The difference between total sales and total costs is called profit.

Let's help Kevin and Penny decide how many birdhouses to build every week. Suppose they could build 1, 2, 4 or 8 each week. Fill in the table below to see what their sales, costs and profits would be in each case.

Price of Each Birdhouse	Number of Birdhouses Sold	Total Sales	Total Costs	Profits
$1.50	1	$1.50	$1.00	.50
$1.30	2	$2.60	$2.00	.60
$1.20	4	$4.80	$4.00	.80
.90	8	$7.20	$8.00	-.80

How many birdhouses do you think Penny and Kevin would like to build each week?

_____ Why? Answers will vary - See Teacher's Guide

_____

If profits are rising, the number of birdhouses produced will ☒ rise ☐ fall

Think About These (Probable Answers)

1. Suppose the cost of wood rises because of a forest fire. It now costs Penny and Kevin $1.20 to build a birdhouse. Do you think the number of birdhouses built will
☐ rise ☒ fall

Do you think Kevin and Penny's profits will ☐ rise ☒ fall

2. Kevin and Penny decide to paint the birdhouses bright colors so people will want to buy them even more.

What will happen to the cost of building a birdhouse? ☒ rise ☐ fall

What may happen to the sale of birdhouses? (If people like painted birdhouses)
☒ rise ☐ fall

What may happen to profits? ☒ rise ☐ fall (Depends on sales.)

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Pre-test

Instructions: For sentences 1 to 9, circle "True" if it is mostly right. If it is mostly wrong, put a circle around "False."

True (False) 1. A consumer is a person who makes goods and services.
(True) False 2. A doctor provides a service.
(True) False 3. What consumers want to buy decides what will be produced.
True (False) 4. When something is scarce, there is enough for everybody.
True (False) 5. When you want something, you must have it.
True (False) 6. A person whose wants are satisfied is called a producer.
(True) False 7. When you buy something, the money you pay is the price.
True (False) 8. Businesses always make profits.
True (False) 9. If the price of something is high, then less will be offered for sale.

For questions 10 and 11, circle the letter next to the words that fit the blank in the sentence.

10. "Opportunity cost" means you have to _____ something to get the thing you want most.
A. buy B. pay for (C.) give up D. decide on

11. When the price goes down, the amount of a product sold often goes _____.
(A.) up B. down

Read the newspaper headline below. Then read sentences 12, 13, and 14. Circle the letter next to the words that fit the blank in each sentence.

NEWS FLASH! *EARTHQUAKE DESTROYS LARGEST BUBBLE GUM FACTORY!*

12. The *price* of bubble gum will _____.
(A.) go up B. go down C. stay the same

13. The *profits* of remaining bubble gum businesses will _____.
(A.) go up B. go down C. stay the same

14. The *production* of bubble gum will _____.
A. go up (B.) go down C. stay the same

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Post-test

Instructions: For sentences 1 to 9, circle "True" if it is mostly right. If it is mostly wrong, put a circle around "False."

(True)	False	1. A person who is eating an ice cream cone is consuming.
(True)	False	2. Many goods are made in factories.
True	(False)	3. If consumers don't buy things, they will be made anyway.
(True)	False	4. A thing is scarce when there is not enough for everyone.
True	(False)	5. If you want something, you have to get it.
(True)	False	6. A consumer uses things to have some wants satisfied.
True	(False)	7. The price of a baseball is what it costs to make it.
(True)	False	8. Businesses try to make profits.
(True)	False	9. The higher the price of something, the more will be offered for sale.

For questions 10 and 11, circle the letter next to the words that fit the blank in the sentence.

10. "Opportunity cost" means you have to _____ something to get the thing you want most.
    A. buy B. pay for (C.) give up D. decide on
11. When the price goes _____, the amount of a product sold often goes up.
    A. up (B.) down

Read the newspaper headline below. Then read sentences 12, 13 and 14. Circle the letter next to the words that fit the blank in each sentence.

NEWS FLASH! *THE NUMBER OF BUBBLEGUM FACTORIES DOUBLES*

12. The *price* of bubble gum will _____.
    A. go up (B.) go down C. stay the same
13. The *demand* for bubble gum will _____.
    A. go up B. go down (C.) stay the same
14. The *production* of bubble gum will _____.
    (A.) go up B. go down C. stay the same

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I. Basic Economics

1. **Bach, G.L.** *Economics.* 7th ed. Englewood Cliffs, N.J.: Prentice Hall, 1971.
2. **Goldberg, K.** *Our Changing Economy.* Boston: Little, Brown, 1976.
3. **Samuelson, P.A. and Temin, P.** *Economics.* 10th ed. New York: McGraw-Hill, 1976.

These references provide a basic source for economic concepts and historical data. A teacher can expect to find these books available at local college bookstores or available on order from any bookstore.

The Bach text is a comprehensive development of basic economic concepts. It gives approximately equal weight to the considerations of individuals and firms and the national economy.

Samuelson treats these same concepts but with a slightly higher level of sophistication and with more attention to the individual and the firm.

Goldberg emphasizes the processes of philosophical and political development as related to the questions of justice, equality and security in the American economic system.

II. Classroom Materials

Evaluation of Classroom Materials

1. **Davison, D.G.** ***et al.*** *Book One. An Evaluation of the Economics and the Teaching Strategies in Social Studies Textbooks.* Elementary Grades (1-6). New York: Joint Council on Economic Education, 1973.

Davison (*Evaluation of Economics and the Teaching Strategies in Social Studies Textbooks*) provides an excellent overview of the problems, areas of concern, and specifications for the selection of textbook materials in economics and social studies education. This booklet provides a structure which can also be used to evaluate supplemental materials.

Basic Texts

1. **Senesh, L.** *Our Working World.* Chicago: SRA, 1973.
2. *Man and His World.* New York: Noble & Noble, 1972.

Senesh's *Our Working World* (in first and second edition) is considered by many to be the finest work in the area of elementary economic education. The program explores the area of economics from the standpoint of the individual. Currently available through the fifth grade, *Our Working World* provides an excellent textual approach to elementary economic education.

Man and His World provides a sound and structured approach to teaching of economic concepts, grades 3 through 7. Teachers and/or districts offering a "developmental" approach to economic learning may find this combination of traditional and inquiry methods of interest.

III. Supplemental Materials

1. **Jackstadt, Steve.** *Primero Dinero.* Chicago: Follett Publishing Co., 1971.
2. _____. *Superheroes of Macroeconomics.* Chicago: Follet Publishing Co., 1971.
3. **Davison, D.G. and Kilgore, J.H.** *The Child's World of Choices.* Iowa City, Iowa: Bureau of Business and Economic Research, 1975.

Primero Dinero and *Superheroes*, both Follett publications, are most appplicable to junior high and higher reading ability students. In comic strip form, *Primero Dinero* explores some of the basic concepts involved in "microeconomics" while "Superheroes" examines macro issues including inflation and monetary policy. This well written and appealing program holds student interest.

The Child's World of Choices provides a means of incorporating economic understandings into social studies curriculum. Five basic economic generalizations provide a focal point while students discover their significance by examining the family in decision-making roles (consuming, income-earning, tax-paying, savings units). It includes a nontechnical overview of economic generalizations, suggested children's activities and a list of economic terms and definitions.

IV. Curriculum Materials

1. **Dawson, G.G.,** *Economics and our Community.* New York, N.Y.: Joint Council on Economic Education, 1973.
2. **McCabe, M.** *Economic Concepts, Grades 4-6.* Vermillion, S.D.: Center for Economic Education, 1974.
3. **Nappi, A.T.** *Learning Economics Through Children's Stories.* New York, N.Y.: Joint Council on Economic Education, 1973.
4. **Kourilsky, M.** *Beyond Simulation.* Los Angeles: Educational Resource Associates, 1974. ("Mini Society").

Economics and our Community, A Resource Unit for Grades 4,5 and 6. A collection of suggested activities and sources from which teachers can select those best suited for their own classroom use. Many are based on entries in The Kazanjian Foundation Awards Program for the Teaching of Economics. Also includes a glossary, listing of materials for pupil use, and ideas for evaluating results.

Economic Concepts is a resource guide for teachers of Grades 4-6. Prepared specifically to aid in identifying and locating important economic concepts that are contained in the vast array of teaching materials and texts available in economic education and how these concepts might be taught. Concept listings include: grade level, source in which it is located, author or publisher, a brief summation of it, and page listing.

Learning Economics Through Children's Stories. A bibliography of children's books K-6 which can be used to supplement elementary school reading and social studies programs. Annotations show how the stories reflect economic concepts, and reading levels are indicated for each book. A valuable reference for both classroom teachers and librarians.

The "Mini Society" program is developed as a self-contained economic education unit for grades 4 through 6 in which children actually create their own economic system in the classroom. More than a simulation, economics is brought home to students through the application of economic concepts to a classroom society. This approach is directed at both cognitive understanding and behavioral change.

V. Periodicals

1. *Wall Street Journal*
2. *Time*
3. *Newsweek*
4. *Barrons*
5. *Changing Times*
6. *Business Week*

Economics is a living and changing science. Teachers teaching the basic principles of economics should pay special attention to the changing economic world. Periodicals such as those listed above will provide educators with data and insights which add relevance to the classroom.

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